

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DOD RENTAL OF DEFENSE NATIONAL STOCKPILE
CENTER FACILITIES**

Report No. 93-103

May 27, 1993

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The following acronyms are used in this report.

BER.....	Building Engineering Report
DLA.....	Defense Logistics Agency
DNSC.....	Defense National Stockpile Center
GAO.....	General Accounting Office
GSA.....	General Services Administration
OASD(P&L).....	Office of the Assistant Secretary of Defense (Production and Logistics)



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

May 27, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND
LOGISTICS)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on DoD Rental of Defense National
Stockpile Center Facilities (Report No. 93-103)

We are providing this final report for your information and use. We made the audit at the request of the Assistant Secretary of Defense (Production and Logistics).

Comments to a draft of this report were considered in preparing the final report. No recommendations were made, no unresolved issues are pending, and no additional comments are required.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Richard B. Jolliffe, Program Director, at (703) 692-2999 (DSN 222-2999), or Mr. Garry A. Hopper, Project Manager, at (703) 692-3024 (DSN 222-3024). The planned distribution of this report is listed in Appendix E.

A handwritten signature in cursive script, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-103
(Project No. 2CA-5021)

May 27, 1993

DOD RENTAL OF DEFENSE NATIONAL STOCKPILE CENTER FACILITIES

EXECUTIVE SUMMARY

Introduction. In a memorandum dated December 19, 1991, the Office of the Assistant Secretary of Defense (Production and Logistics) requested that an audit be made of costs associated with renting Defense National Stockpile Center facilities from the General Services Administration and of savings from potential transfer of the facilities from the General Services Administration to DoD. DoD rental payments to the General Services Administration for the 14 facilities proposed for transfer to DoD were \$11 million in FY 1992. In return, the General Services Administration provided DoD about \$3 million to operate and maintain the facilities.

Objectives. The audit objectives were to:

- o evaluate policies and procedures related to the rental of Defense National Stockpile Center facilities from the General Services Administration,

- o determine whether opportunities existed to reduce or eliminate rental payments through consolidation or transfer of the facilities to DoD,

- o evaluate the associated real property repair and alteration costs, and

- o determine the effectiveness of internal controls.

Audit Results. The Defense National Stockpile Center policies, procedures, and practices related to the rental, operation and maintenance, repair and alteration, and utilization of Defense National Stockpile Center facilities were generally adequate. DoD rental payments to the General Services Administration would be eliminated by transferring custody and control of the facilities to DoD; however, DoD would be responsible for all operation and maintenance costs and the backlog of required repairs and alterations to the facilities. The real property repair and alteration requirements were generally valid. Responses to specific issues identified by the Office of the Assistant Secretary of Defense (Production and Logistics) in the request for audit appear in Part II of this report.

Internal Controls. We found no material internal control weaknesses. See Part I for details of internal controls assessed.

Management Comments. The Deputy Assistant Secretary of Defense (Production Resources) and the Deputy Assistant Secretary of the Army (Installations and Housing) provided comments to a draft of this report. The Deputy Assistant Secretary of Defense concurred with the report conclusions and directed the Defense Logistics Agency and the Army to proceed with transferring the Defense National Stockpile Center leased facilities from the General Services Administration to the Army. However, the Deputy Assistant Secretary of the Army did not agree in principle to the transfer. A full discussion of management comments is in Part II and the complete text of management comments is in Part IV of this report.

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The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD prepared this report. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

Defense National Stockpile. The Strategic and Critical Materials Stock Piling Act of 1946 (United States Code, title 50, section 98, et seq.) established the National Defense Stockpile (the Stockpile) to decrease the United States' dependence on foreign sources of supply in times of national emergency. Executive Order 12626, February 25, 1988, transferred management of the Stockpile from the General Services Administration (GSA) Federal Property Resources Service and the Federal Emergency Management Agency to DoD and designated the Secretary of Defense as Stockpile manager. The Defense National Stockpile Center (DNSC), a Defense Logistics Agency (DLA) activity, operates the Stockpile. Although the 1988 Executive Order transferred Stockpile management to DoD, GSA retained ownership of associated real property. The Office of Management and Budget subsequently determined that existing rental agreements for Stockpile facilities would not change except that DoD, not GSA, would make the payments. In July 1991, the House Armed Services Committee expressed an interest in the transfer of custody and control of certain DNSC facilities to DoD. The Office of the Assistant Secretary of Defense (Production and Logistics) (OASD[P&L]) negotiated the transfer of the DNSC leased facilities from GSA accountability to the Army.

Defense National Stockpile Center organization. DNSC, headquartered in Arlington, Virginia, is composed of 90 distinct open and covered storage sites located throughout the continental United States. The sites, leased from GSA, other DoD activities, and various public and private entities, are organized geographically under "zone" offices located in New York, New York; Hammond, Indiana; and Fort Worth, Texas. DNSC operates 14 of the sites leased from GSA in accordance with a memorandum of understanding and agreement originally negotiated in 1982 between the GSA Public Buildings Service and the Stockpile manager, which at that time was the GSA Federal Property Resources Service. Under the terms of the 1982 agreement, GSA annually transfers funds to the current Stockpile manager (DoD), through allocation accounts established at the U.S. Treasury to operate and maintain, repair and alter (recurring repairs and alterations only), protect, furnish, equip, and control the sites. The funds are, in effect, a return of that portion of the total rent payment representing the cost of the delegated functions. Unused funds are returned to the U.S. Treasury. Nonrecurring repairs and alterations remain the GSA Public Buildings Service responsibility. DNSC has 267 full-time permanent employees and an annual operation and maintenance budget of about \$30 million.

Objectives

This audit was initiated in response to a December 19, 1991, request from the OASD(P&L) to review specific issues related to rental, operation and maintenance, repair and alteration, and utilization of DNSC facilities leased from GSA. The objectives of the audit were to evaluate policies and procedures related to the rental of DNSC facilities from GSA, to determine whether opportunities existed to reduce or eliminate the rental payments through consolidation or transfer of custody and control of the facilities, to evaluate the associated real property repair and alteration costs, and to review applicable internal controls.

Scope

Universe, scope of review, and locations. We evaluated policies and procedures related to the rental, operation and maintenance, repair and alteration, and utilization of DNSC facilities leased from GSA. We also reviewed related financial and other documentation such as rental billings, operation and maintenance expense data, repair and alteration backlog listings, and space utilization reports for FYs 1988 through 1992. The audit universe included \$12.6 million in annual rental payments, \$3 million in annual operation and maintenance expenses, and \$52.8 million in repair and alteration backlog. We reviewed all the rental payments, and \$19.2 million (36 percent) of the \$52.8 million repair and alteration backlog. We also reviewed summary-level data for the universe of operation and maintenance expenses. We made site visits to 2 of the 3 DNSC zone offices, as well as 5 of the 14 storage sites proposed for transfer to DoD. We obtained information from GSA personnel during the audit about rental payments and operating and repair expenses. We also discussed the proposed transfer of custody and control of the facilities to DoD with officials of affected activities. The activities visited or contacted during the audit are listed in Appendix D.

Audit period and standards. This economy and efficiency audit was made from April to November 1992 and was conducted in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. We determined that the computer-generated data that DNSC provided relating to the rental, repair and alteration, and space utilization functions were reliable. We did not assess the reliability of computer-generated listings of actual operation and maintenance expenditures for FY 1991 that the Defense Finance and Accounting Service provided. The listings were used only to verify summary level totals on DNSC records.

Internal Controls

To determine the adequacy of internal management controls, we reviewed policies, procedures, and practices related to the rental, operation and maintenance, repair and alteration, and utilization of DNSC facilities. The following lists the specifics of our review.

- o We reviewed GSA rental charges for reasonableness and validity.

- o We evaluated operation and maintenance and repair and alteration costs for reasonableness and accountability.

- o We reviewed data related to material storage to determine whether available capacity was being effectively utilized.

The audit disclosed no material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. The Federal Managers' Financial Integrity Act was effectively implemented for functions pertaining to our audit objectives.

Prior Audits and Other Reviews

In 1991, the General Accounting Office (GAO) issued a report that evaluated GSA efforts to complete needed repairs and alterations in Government-owned buildings. GAO also issued a report in 1993 that evaluated the validity of the material consumption ratios used in determining requirements. In addition, the IG, DoD, issued reports in 1989 and 1991 identifying deficiencies in both DoD management of Stockpile materials and DoD use of leased real property. Details of these prior audit reports are in Appendix A.

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PART II - RESULTS OF AUDIT

Defense National Stockpile Center policies, procedures, and practices related to the rental, operation and maintenance, repair and alteration, and utilization of Stockpile facilities were generally adequate. DoD rental payments to GSA would be eliminated by transferring custody and control of the facilities to DoD; however, DoD would be responsible for all operation and maintenance costs and repairs and alterations to the facilities. The repair and alteration requirements related to real property were generally valid.

The specific OASD(P&L) questions and concerns regarding the rental of DNSC facilities from GSA, as well as the results of our audit, are discussed in the following paragraphs.

Are the charges to DoD under the standard level user charge reasonable and valid? GSA introduced the standard level user charge in 1975 to establish rental rates for leased facilities. In 1987, GSA's rent system replaced the standard level user charge. The change simplified GSA's rate-setting process and made the process comparable to commercial rate-setting practices. We determined that GSA rental charges for DNSC facilities were generally valid and that annual rate increases were in accordance with GSA policy.

Rent system. The rent system is based on a 5-year cycle, and the current cycle began in FY 1992. GSA develops the rental rates charged in the first year of the cycle by direct appraisal or through construction ratios. GSA adjusts the rates for the second through fifth years based on changes in actual operating costs and the consumer price index. The rates include a charge for a standard level of service to occupants based on the costs for a 5-day, one-shift regular work schedule. Agency rental payments are deposited in the Federal Buildings Fund, a revolving fund used to operate and maintain Government-owned and Government-leased buildings, as well as to acquire and construct new buildings. An agency may formally appeal a GSA rental rate when the agency believes that the rate exceeds comparable commercial charges by 20 percent or 1 dollar per square foot, whichever is greater, and when the quarterly rental charge appears to exceed comparable commercial charges by more than \$25,000.

Rental charges to DNSC. The rental charges to DNSC were valid because DNSC paid rent to GSA only for buildings occupied by DNSC. In addition, we analyzed annual changes (actual and projected) in GSA rental charges for DNSC facilities for FYs 1989 through 1994. The analysis showed that GSA rental charges increased from \$11,169,100 in FY 1991, the fifth year of the previous rental cycle, to \$12,619,737 in FY 1992, the first year of the current rental cycle (a 13-percent increase). This

increase was larger than the increase for FY 1990, 3.4 percent, and FY 1991, 5.6 percent. However, the FY 1992 13-percent increase was attributable to commercial property appraisals performed by GSA in 1990, in addition to changes in actual operating costs and the consumer price index. For fiscal years not affected by revised appraisals, total rate increases appeared to be in line with established GSA policy. A schedule of GSA rental charges for DNSC facilities, shown by fiscal year, is at Appendix B.

Is the reimbursement formula equitable and does an audit trail validate the reimbursement? GSA provides funds to DoD annually to operate and maintain the 14 DNSC facilities proposed for transfer. GSA also provides funds to DoD annually for recurring repairs and alterations to the facilities. The GSA funds are, in effect, a return of that portion of the DoD rental payment representing the cost of services. The method for calculating the amount of operation and maintenance funding that GSA provided to DoD was adequate; however, the method of calculating the funding for recurring repairs and alterations was inadequate because it did not cover the actual costs and was, therefore, inequitable.

Operation and maintenance funding. Operation and maintenance funding is based on GSA workload data for functions delegated under the 1982 memorandum of understanding and agreement. GSA adjusts the level of funding annually for inflation.

To determine whether the GSA method for computing the operation and maintenance funding level was equitable, we obtained a list from the Defense Finance and Accounting Service of actual operation and maintenance expenditures for FY 1991 for the 14 facilities proposed for transfer. We compared total actual operation and maintenance expenditures on the list with total funds made available by GSA. Comparison showed that available funds exceeded actual operation and maintenance expenditures for FY 1991 by \$225,000. Although we did not review individual operation and maintenance expenditures on the list, we found no reason to question the method GSA uses to compute funding levels for operation and maintenance of DNSC facilities.

Repairs and alterations funding. Under the 1982 memorandum of understanding and agreement, GSA provided funds to DoD for those recurring repairs and alterations identified by a joint inspection. However, in 1992, GSA developed a method for funding recurring repairs and alterations based on a fixed rate per square foot of leased space. The FY 1992 rate, about 14 cents per square foot for warehouse space, provided DNSC with \$715,000 of funds for current requirements. The GSA rate did not include coverage for a \$6.5 million backlog of required repairs and alterations identified from previous fiscal years. The

current method used to compute funding levels does not appear to be equitable because the method will not reduce the backlog of required recurring repairs and alterations at DNSC facilities leased from GSA. However, if custody and control of the facilities were transferred to DoD, funds to decrease the backlog could be obtained from the National Defense Stockpile Transaction Fund. The National Defense Authorization Act for FY 1993 allows DNSC to use Transaction Fund monies for repairs and alterations to Stockpile facilities.

Defense Finance and Accounting Service financial records provided an audit trail that allows for verification of the DNSC recurring repair and alteration account. Nonrecurring repairs and alterations, those considered "major" by GSA standards, are performed and paid for by GSA.

Are the real property repair and alteration costs valid? Are they based on statistical estimating techniques or engineering surveys? The backlog of required repairs and alterations to facilities at DNSC totaled about \$52.8 million as of June 30, 1992. The repair and alteration backlog was generally valid. Of the required repairs and alterations, \$40.3 million was nonrecurring, \$6.5 million was recurring, and \$6 million was not classified by GSA as either nonrecurring or recurring. The nonrecurring repairs and alterations in the backlog were based on information contained in the GSA Repair and Alteration and Construction Automated Tracking System. The system consists of individual work items identified by GSA building engineering reports (BERs), as well as input from GSA facilities management personnel. The BER proposes work required to ensure the short-term (up to 5 years) operational continuity of facilities and plans major capital reinvestment in the facilities for long-term (up to 20 years) utilization. The BER is essentially an engineering survey performed by either GSA personnel or architectural-engineering firms under contract to GSA. The recurring repairs and alterations in the backlog were identified by GSA and DNSC based on formal and informal inspections by depot and other personnel.

We reviewed the backlog of required repairs and alterations at the five DNSC storage sites visited during the audit. About \$18.9 million of the \$19.2 million in repair and alteration backlog represented valid requirements. The remaining \$296,000 represented repairs and alterations that were already completed. In addition, we noted that all required repairs appeared in the backlog. As a result, we believe that the \$52.8 million repair and alteration backlog generally reflects the physical condition of the facilities.

Could DoD save money through "ownership" of the facilities instead of leasing? To determine the cost-effectiveness of the proposed transfer, we evaluated rental, operation and maintenance, and repair and alteration costs for the 14 sites.

Custody and control costs. If custody and control were transferred, DNSC rental payments to GSA for the sites, which totaled \$11 million in FY 1992, would be eliminated. DoD would, in turn, be responsible for funding related operation and maintenance costs otherwise paid for by GSA under the rent system. GSA provided DoD about \$3 million in FY 1992 to operate and maintain the 14 storage sites proposed for transfer. As a result, DoD net expenditures would be reduced by about \$7.6 million annually based on FY 1992 totals. However, DoD would also be responsible for recurring repairs and alterations (GSA provided DoD \$715,000 for recurring repairs and alterations in FY 1992) and would become responsible for nonrecurring repairs and alterations, as well as replacement (as needed) of the facilities.

Repair and alteration backlog. The National Defense Authorization Act for FY 1993 allows National Defense Stockpile Transaction Fund monies to be used for maintenance and improvement of Stockpile facilities, which should help alleviate the backlog of repairs and alterations. The \$52.8 million backlog in BER repairs and alterations identified by GSA may change depending on which work items in the backlog DoD determines are necessary. DoD repair of certain work items could represent a major commitment of transaction funds. This is especially significant since BER repairs and alterations include those related to the continued use of a facility for up to 20 years. However, based on recent efforts to downsize the Stockpile (discussed later in this report), a long-term requirement for some facilities included in the proposed transfer may not exist. For example, the backlog includes \$2.7 million for two unoccupied warehouses at the Scotia, New York, depot. DNSC officials consider the warehouses "beyond repair," and have no plans to occupy or replace the warehouses at a later date. DoD does not pay rent for warehouses that DNSC considers "beyond repair."

Building engineering report. Not all BER work items are critical to the mission and functions of the occupant agency. If the sites with major BER work items were not transferred to DoD, it appears doubtful that GSA will upgrade their physical condition. GSA officials have stated that, without a commitment from DoD regarding the long-term use of the sites, only those repairs and alterations considered urgent or safety-related would be performed.

If DoD assumes ownership of the facilities, what is the preferred management arrangement, for example, which Military Department should own and manage the sites? Defense agencies are prohibited by United States Code, title 10, section 2662 from owning real property. Historically, Defense agencies have used the Military Departments or GSA to handle real property requirements. DLA Regulation 4165.4, "Real Property Actions," states that DLA will use the services of the Army for all real property acquisition actions. OASD(P&L) informed us that the Army was designated "landlord" for the 14 DNSC storage sites proposed for transfer. The Army expressed the following specific concerns.

o Who will become responsible for the \$52.8 million repair and alteration backlog at the sites? OASD(P&L) stated that DLA will be responsible for required recurring and nonrecurring repairs and alterations, and that any savings realized through elimination of the rental payments to GSA will be applied to the backlog. OASD(P&L) also stated that the Army responsibilities will be incorporated into the document that authorizes DLA to occupy the newly acquired sites.

o Who will become responsible for any environmental cleanup? OASD(P&L) stated that the Marietta, Pennsylvania, storage site is the only site affected and that the Army, the original polluter of the site, will be responsible for cleanup regardless of the transfer.

o Who will assume responsibility for overhead costs associated with managing the sites? OASD(P&L) stated that the Army will maintain the real property inventory, which will remain static after the transfer, and that DLA will manage and operate the sites.

Could additional monies be saved through closure or consolidation of some facilities? Decisions regarding closure or consolidation of DNSC facilities should be based on a complete analysis of space availability and cost, environmental considerations, transportation costs, proximity to producers and consumers, site preparation costs, and security requirements. Because our audit objectives addressed only space availability and cost, we are not in a position to recommend specific consolidation or closure actions. DNSC has developed plans to dispose of excess stockpile materials at specific storage sites and to relocate other materials to alternate storage sites. The relocations were precipitated by the realignment or closure of DoD installations. If the proposed downsizing of the Stockpile takes place, opportunities to save funds through closure or consolidation will obviously increase.

DoD Stockpile requirements. As of September 30, 1991, the total dollar value of strategic and critical materials in the Stockpile was about \$9 billion. According to the DoD, "1992 Report to the Congress on the National Defense Stockpile," (the Report) the total dollar value of all requirements, based on the 3-year conventional global war scenario mandated by the Strategic and Critical Materials Stock Piling Act of 1946, was about \$3 billion. In its 1992 report, DoD stated that material requirements could be reduced to about \$1.3 billion if more realistic post-cold war planning assumptions were adopted. The FY 1993 National Defense Authorization Act allows DoD to dispose of excess Stockpile materials over a 5-year period unless a market-impact committee established by Congress determines that disposal would unduly disrupt the markets for the materials. In addition, the Act contains provisions for disposing of hazardous materials stored at Stockpile facilities.

Lease costs. To determine whether additional savings could be realized through closure or consolidation, we identified other storage sites that DNSC will continue to lease after the transfer of the 14 GSA sites operated by the DoD under the 1982 memorandum of understanding and agreement. DNSC FY 1992 expenditures for the storage sites totaled \$5.6 million, as follows.

- o DNSC paid \$750,574 to GSA for 272,901 square feet of warehouse space at six storage sites not included in the proposed transfer, as well as \$821,530 to GSA for 26,907 square feet of administrative space occupied by the DNSC headquarters and the New York and Fort Worth zone offices. DNSC also occupies 794,400 square feet of open storage space under GSA's custody and control; however, GSA does not currently charge for open storage space.

- o DNSC paid \$1.4 million in intra-DoD storage charges to Army and Navy activities for 1.3 million square feet of warehouse storage space, as well as \$2.2 million for 7.2 million square feet of open storage space. DoD storage and warehousing rates for strategic and critical material Stockpile operations are contained in DoD Directive 4145.19-R, "Storage and Warehousing Facilities and Services."

- o DNSC paid \$391,312 to various public and private entities for 91,360 square feet of warehouse and 25,682,899 square feet of open storage space.

Space utilization. We determined vacancy rates as of February 27, 1992, for the 14 storage sites scheduled for transfer from GSA to DoD. Of the 14 sites, 10 contained both warehouse and open storage space, while 4 sites contained open space only. Average vacancy rates for the 14 storage sites were 32 percent for warehouse storage space and 61 percent for open

storage space. The vacancy rates represented 1.3 million square feet of warehouse space and 13.7 million square feet of open storage space. Vacancy rates for individual storage sites ranged from 10 percent to 50 percent for warehouse space and from 0 percent to 94 percent for open space. Also, according to the 1992 Annual Materials Plan, some Stockpile materials are no longer required by the Stockpile in any quantity. If the excess materials were completely disposed of, average vacancy rates would increase to 66 percent for warehouse storage space and 76 percent for open storage space. The results of our review of storage capacity are summarized in Appendix C.

A similar review for storage space leased from Army and Navy activities showed that materials, no longer required by the Stockpile, occupied 283,783 square feet of warehouse space and 2,404,904 square feet of open space. We estimated that intra-DoD storage charges for the excess materials represented at least \$1.5 million of the \$3.6 million total intra-DoD charge for FY 1992. Recommendations to dispose of excess Stockpile materials were made in IG, DoD, Audit Report No. 91-112, "Requirements for the National Defense Stockpile," July 19, 1991. See Appendix A for details.

MANAGEMENT COMMENTS

Management comments. Although comments were not required, the Deputy Assistant Secretary of Defense (Production Resources) and the Deputy Assistant Secretary of the Army (Installations and Housing) commented on a draft of the report. The Deputy Assistant Secretary of Defense agreed with the audit conclusions and directed the Defense Logistics Agency and the Army to begin the process of transferring the DNSC leased facilities from GSA accountability to the Army. However, the Deputy Assistant Secretary of the Army disagreed in principle to the transfer. The complete text of management comments is in Part IV of this report.

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PART III - ADDITIONAL INFORMATION

- APPENDIX A - Summary of Prior Audits and Other Reviews
- APPENDIX B - Rental Charges for Defense National Stockpile
Center Facilities
- APPENDIX C - Space Utilization at Defense National Stockpile
Center Facilities
- APPENDIX D - Activities Visited or Contacted
- APPENDIX E - Report Distribution

APPENDIX A - SUMMARY OF PRIOR AUDITS AND OTHER REVIEWS

General Accounting Office (GAO)

GAO Report No. GGD-91-57 (OSD Case No. 8702), "Federal Buildings, Actions Needed to Prevent Further Deterioration and Obsolescence," May 13, 1991. The audit evaluated GSA efforts to complete needed repairs and alterations in Government-owned buildings. The report showed that Federal buildings were neglected and needed major repairs and alterations to bring them up to acceptable quality and health and safety standards. Funding limitations due to insufficient revenue being generated by the Federal Buildings Fund and ineffective GSA management and oversight of identified repair and alteration requirements were the two principal reasons buildings were neglected and gradually allowed to deteriorate, to become antiquated, and, in a few instances, to become unsafe. The report recommended that GSA improve its management and oversight of repair and alteration requirements, target the most seriously deteriorated and functionally obsolete or unsafe buildings, and promote more informed congressional decisionmaking regarding funding decisions. GSA agreed that many Federal buildings needed improvements and modernization and promised several corrective actions that, if fully and effectively implemented, generally would be responsive to most of the recommendations.

GAO Code 398131 (OSD Case No. 9265), "National Defense Stockpile: Views on DoD's 1992 Report to the Congress and Proposed Legislation," March 16, 1993. The report showed that the material consumption ratio used to convert estimates of economic activity into requirements for strategic and critical material were out of date and, therefore, cast doubt on the validity of the requirements presented in the DoD 1992 Report to the Congress on National Defense Stockpile Requirements. Also, GAO reported that DoD had excess ferromanganese and ferrochromium in the Stockpile, even though the alloys were readily available on the world market. The report further determined that changes in the threats to the U.S. national security, reduction in forces, and increased warning times supported judicious disposal of outdated and excess materials and a temporary curtailment of uncommitted purchases. The report also stated that DoD could dispose of some obsolete materials without risk to national security or disruption of the materials markets. DoD generally agreed with the report findings and recommendations.

APPENDIX A - SUMMARY OF PRIOR AUDITS AND OTHER REVIEWS (cont'd)

Office of the Inspector General, DoD

IG, DoD Report No. 89-080, "Real Property Leased by the Department of Defense," June 23, 1989. The report stated that DoD activities leased general purpose space even though buildings were available on nearby military installations. The report recommended that the Military Departments comply with existing DoD policy and determine the availability of unused land and facilities. The report also recommended that OASD(P&L), in conjunction with the Director, Administration and Management, Office of the Secretary of Defense, establish a task force or inter-Service committee to identify installations with available land and facilities that can be used to relocate DoD activities leasing space in those areas. In addition, the committee should establish a long-range plan for moving DoD activities from leased space into DoD-owned space. Management agreed with the findings and recommendations, and corrective actions were initiated.

IG, DoD Report No. 91-112, "Requirements for the National Defense Stockpile," July 19, 1991. The report stated that the process for determining the types, quantities, and qualities of materials to be acquired for and retained in the Stockpile needed improvement. Also, better management of acquisitions and disposals of Stockpile material was needed. In addition, procedures were not sufficiently specific to permit effective implementation of planned disposals and acquisitions as shown in the Annual Materials Plan, and internal controls were not adequate to ensure the disposal of excess material and the acquisition of materials to fill deficits. The report recommended that OASD(P&L) develop and implement a 5-year plan to prioritize and dispose of excess stockpiled materials. Management concurred with the findings and recommendations and submitted two Annual Materials Plans to Congress on February 13, 1992. A 5-year plan to dispose of excess inventories was included in the 1992 Stockpile Requirements Report.

APPENDIX B - RENTAL CHARGES FOR DEFENSE NATIONAL STOCKPILE CENTER FACILITIES

Location	Facilities Proposed For Transfer ¹					
	<u>FY1989</u>	<u>FY1990</u>	<u>FY1991</u>	<u>FY1992</u>	<u>FY1993</u>	<u>FY1994</u>
Curtis Bay, MD	\$ 575,201	\$ 595,125	\$ 625,868	\$ 836,156	\$ 837,584	\$ 860,240
Binghamton, NY	1,722,129	1,768,803	1,851,950	959,378	1,007,901	1,035,878
Scotia, NY	1,145,613	1,184,185	1,265,816	1,693,307	1,771,490	1,818,888
Somerville, NJ	2,852,350	3,029,7132	3,120,755	3,766,098	3,993,245	4,090,914
Point Pleasant, WV	140,061	148,373	161,171	454,732	481,137	493,431
Sharonville, OH	41,261	42,266	44,083	25,597	26,575	27,331
Warren, OH	817,928	729,821	724,841	1,698,320	1,779,511	1,826,881
New Haven, IN	1,051,641	1,126,207	1,602,3183	1,201,000	1,256,881	1,291,832
Hammond, IN	280,643	286,228	300,188	341,007	357,416	366,533
Baton Rouge, LA	74,119	76,706	79,364	72,038	76,191	77,337
Theodore, AL ⁴	0	0	0	0	0	0
Mira Loma, CA ⁴	0	0	0	0	0	0
Voorheesville, NY ⁴	0	0	0	0	0	0
Marietta, PA ⁴	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$8,700,946	\$8,987,427	\$9,776,354	\$11,047,633	\$11,587,931	\$11,889,265

See footnotes at end of appendix.

APPENDIX B - RENTAL CHARGES FOR DEFENSE NATIONAL STOCKPILE CENTER FACILITIES (cont'd)

<u>Location</u>	<u>Facilities Not Included In Proposed Transfer</u>					<u>FY1994</u>
	<u>FY1989</u>	<u>FY1990</u>	<u>FY1991</u>	<u>FY1992</u>	<u>FY1993</u>	
Arlington, VA	N/A	N/A	\$ 561,553	\$ 644,722	\$ 671,603	\$ 705,183
New York, NY ⁵	185,547	189,380	198,257	240,060	254,269	262,521
Port Clinton, OH	N/A	N/A	12,968	14,464	15,248	15,675
Pauline, KS	369,809	381,889	397,326	219,091	230,369	236,828
Fort Worth, TX ⁵	46,555	47,490	43,262	35,485	37,713	31,858
Lakewood, CO	4,751	20,965	21,506	4,751	N/A	N/A
Clearfield, UT	147,347	153,095	157,874	413,531	439,056	450,384
Subtotal	\$ 754,009	\$ 792,819	\$ 1,392,746	\$ 1,572,104	\$ 1,648,258	\$ 1,702,449
Total	\$9,454,955	\$9,780,246	\$11,169,100	\$12,619,737	\$13,236,189	\$13,591,714
Percent Change		3.4	5.66	13.0	4.9	2.7

¹DoD and GSA have agreed in principle to transfer custody and control of the 14 storage sites operated by DoD under a 1982 memorandum of understanding and agreement.

²Represents correct rent charge. (GSA billed DoD for only \$2,258,988.)

³Increase attributable to increase in total square footage, as well as rate increase. (Without increase in square footage, rent payment would have been \$1,333,573.)

⁴Location contains open storage space only. GSA does not charge for open storage space.

⁵Total includes both administrative and storage space.

⁶Percent change excludes the effect of increased storage capacity at New Haven and addition of the Arlington and Port Clinton facilities.

APPENDIX C - SPACE UTILIZATION AT DEFENSE NATIONAL STOCKPILE CENTER FACILITIES

<u>Location</u>	<u>Open Storage</u>				<u>Potential Vacant³ Square Feet</u>	<u>Potential Percent Vacant</u>
	<u>Usable¹ Square Feet</u>	<u>Vacant Square Feet</u>	<u>Percent Vacant²</u>			
Binghamton, NY	32,000	30,000	94		30,000	94
Scotia, NY	336,098	249,398	74		315,598	94
Somerville, NJ	1,631,500	1,179,890	72		1,504,600	92
Hammond, IN	1,549,550	1,232,022	80		1,466,622	95
Voorheesville, NY	1,243,698	1,006,178	81		1,167,978	94
Curtis Bay, MD	1,193,478	757	0		386,290	32
Point Pleasant, WV	1,420,797	865,384	61		929,884	65
Warren, OH	2,429,188	1,717,531	71		1,946,932	80
New Haven, IN	2,782,131	2,106,098	76		2,507,566	90
Sharonville, OH	1,128,000	804,600	71		918,600	81
Baton Rouge, LA	5,928,751	3,964,624	67		4,849,751	82
Mira Loma, CA	37,510	23,510	63		23,510	63
Theodore, AL	1,480,000	0	0		0	0
Marietta, PA	<u>1,394,500</u>	<u>553,000</u>	40		<u>1,061,000</u>	76
Total	<u>22,587,201</u>	<u>13,732,992</u>	61		<u>17,108,331</u>	76

See footnotes at end of appendix.

APPENDIX C - SPACE UTILIZATION AT DEFENSE NATIONAL STOCKPILE CENTER FACILITIES (cont'd)

<u>Location</u>	<u>Warehouse Storage</u>			<u>Potential Vacant³ Square Feet</u>	<u>Potential Percent Vacant</u>
	<u>Usable¹ Square Feet</u>	<u>Vacant Square Feet</u>	<u>Percent Vacant²</u>		
Binghamton, NY	548,790	273,200	50	332,860	61
Scotia, NY	464,402	55,169	12	189,276	41
Somerville, NJ	640,000	61,345	10	369,718	58
Hammond, IN	115,121	57,149	50	97,461	85
Curtis Bay, MD	140,938	25,072	18	79,417	56
Point Pleasant, WV	171,730	33,926	20	138,812	81
Warren, OH	1,044,582	450,549	43	777,997	74
New Haven, IN	<u>755,561</u>	<u>303,614</u>	40	<u>589,187</u>	78
Total	<u>3,881,124</u>	<u>1,260,024</u>	32	<u>2,574,728</u>	66

¹Usable square footage is the total square footage less support space, structural loss space and aisle space. Usable square footage is considered to be 80 percent of the total square footage unless specific conditions dictate a deviation.

²Space utilization is based on February 27, 1992, data. Acquisitions, relocations, and disposals occurring after that date are not reflected in the vacancy rates.

³Potential vacant square footage represents the square footage currently vacant plus the square footage occupied with materials that have zero inventory goals per the, "Report to the Congress on National Defense Stockpile Requirements," February 1992.

APPENDIX D - ACTIVITIES VISITED OR CONTACTED

Department of Defense

Assistant Secretary of Defense (Production and Logistics),
Washington, DC
Deputy Assistant Secretary of Defense (Production Resources),
Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Army

Assistant Secretary of the Army (Installations, Logistics,
and Environment), Washington, DC

Defense Agencies

Headquarters, Defense Logistics Agency, Alexandria, VA
Headquarters, Defense National Stockpile Center,
Arlington, VA
Defense National Stockpile Zone 1, New York, NY
Scotia Supply Depot, Scotia, NY
Outside Storage Facility, Voorheesville, NY
Binghamton Supply Depot, Binghamton, NY
Somerville Supply Depot, Somerville, NJ
Defense National Stockpile Zone 2, Hammond, IN
Hammond Supply Depot, Hammond, IN
Defense National Stockpile Zone 3, Fort Worth, TX
Defense Finance and Accounting Service, Columbus, OH

Non-DoD

General Government Division, General Accounting Office,
Washington, DC
Headquarters, General Services Administration, Washington, DC
Office of the Inspector General, General Services
Administration, Washington, DC

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APPENDIX E - REPORT DISTRIBUTION

Office of the Secretary of Defense

Director of Defense Procurement
Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense
Director of the Joint Staff

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Installations, Logistics,
and Environment)
Commander, U.S. Army Corps of Engineers
Auditor General, Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management
and Comptroller)
Auditor General, Air Force Audit Agency

Defense Agency

Director, Defense Logistics Agency

Non-Defense Federal Agencies

General Government Division, General Accounting Office,
Washington, DC
Administrator, General Services Administration, Washington, DC
Inspector General, General Services Administration,
Washington, DC
Office of Management and Budget
National Security and International Affairs Division, Technical
Information Center, General Accounting Office

APPENDIX E - REPORT DISTRIBUTION (cont'd)

Chairman and Ranking Minority Member of Each of the Following
Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Subcommittee on Defense Industry and Technology,
Committee on Armed Services
Senate Subcommittee on Mineral Resources Development and
Production, Committee on Energy and Natural Resources
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations
House Subcommittee on Seapower and Critical Materials,
Committee on Armed Services
House Subcommittee on Mining and Natural Resources,
Committee on Interior and Insular Affairs

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PART IV - MANAGEMENT COMMENTS

Office of the Assistant Secretary of Defense (Production and
Logistics)

Department of the Army

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS) COMMENTS



OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

24 MAR 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Draft Audit Report on DoD Rental of Defense National
Stockpile Center Facilities (Project No.2CA-5021)

OASD(P&L) concurs completely with the findings and recommendations of your draft audit report on DNSC leased facilities. On the strength of this report, the PDASD(P&L) recently directed the Army and DLA to begin the process of transferring the DNSC leased facilities from GSA to the Army. We appreciate the fine support Mr. Garry A. Hopper and his team provided to our office on this issue.

Walter B. Bergmann, II
Acting Deputy Assistant Secretary
(Production Resources)

DEPARTMENT OF THE ARMY COMMENTS

Final Report
Reference



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON DC 20310-0111

February 3, 1993



MEMORANDUM THRU THE DIRECTOR OF THE ARMY STAFF *CRD 4/2/93*
DIRECTOR OF THE ARMY STAFF FEB 04 93

THE INSPECTOR GENERAL, DEPARTMENT OF
THE ARMY

FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on DoD Rental of Defense
National Stockpile Center Facilities

This is in response to your request for comments
on subject report.

Part II of your report states on pages 12 and 13
that during the audit you were informed that the Army
agreed in principle to the transfer of the 14 storage
sites and that the parties were discussing responsi-
bility for unknown environmental problems associated
with the sites. As the attached memorandum clearly
shows, the Army has not agreed in principle to the
transfer of these depots and, in fact, strongly objects
to it. Nor is the Army engaged in any discussions con-
cerning responsibilities for environmental problems at
these sites.

The position of the Army, stated in the attached
memorandum, remains valid.

Paul W. Johnson
Paul W. Johnson
Deputy Assistant Secretary of the Army
(Installations and Housing)
OASA(I,L&E)

Attachment

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DEPARTMENT OF THE ARMY COMMENTS (cont'd)



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, DC 20310-0111
July 2, 1992

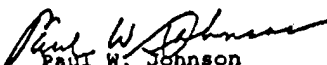


MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ~~ARMY~~ DEFENSE
(INSTALLATIONS)

SUBJECT: Transfer of Stockpile Depots

There does not appear to be any reason why Army would want to take over accountability for these depots. In this time of base closures and general downsizing, Army has no requirements to acquire additional installations.

The legislation that transferred the stockpile mission to DoD could have also transferred accountability of the depots to Army but did not. One can only presume that Congress saw no reason to remove the accountability from GSA. On the other hand, GSA needs to be held accountable for not properly maintaining the depots. Also, I recommend an audit be made on the rental/SLUC amounts GSA charges.


PAUL W. JOHNSON
Deputy Assistant Secretary of the Army
(Installations and Housing)
OASA(I,L&E)

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